EDISON

Team Internet Group

Q323 results

Diversity delivering resilience

Software and comp services

Team Internet's results for the nine months to 30 September 2023 (9M23) showed good, continued progress, with revenue, adjusted EBITDA and adjusted EPS growing 16%, 11% and 28% y-o-y. Online Presence continued its return to form, with 20% growth over the period. While the weak advertising market and a strong comparative period was reflected in a moderation in growth in Online Marketing (15%), this still implies outperformance of the overall market. Management expects full year results to be at least in line with consensus. We make no material changes to our P&L estimates and continue to see scope for upside. We have increased our year end net debt forecast (previously below consensus) to reflect higher capital investment in content and software development, acquisition costs and working capital than previously modelled. In our view, the company's value P/E rating of 7.1x FY23 dropping to 6.1x in FY24 is in stark contrast the company's growth track record and prospects.

Year end	Revenue* (US$m)	Adj EBITDA* (US$m)	PBT* (US$m)	EPS** (c)	EV/EBITDA (x)	P/E (x)
12/21	410.5	46.3	31.9	10.9	10.4	13.9
12/22	728.2	86.0	64.3	21.4	5.6	7.1
12/23e	833.7	94.4	80.1	21.4	5.1	7.1
12/24e	909.6	103.0	89.3	24.7	4.7	6.1

Note: *Excludes impact of share-based payments, foreign exchange charges and non-core operating costs.

Double-digit growth in both segments

9M23 revenues in Online Presence grew 20% y-o-y to $114.1m, driven by a number of factors, including demand for 'exotic' top-level domains (TLDs), value-added service upsell, strategic partnerships and pricing optimisation. With a strengthened management team, progress with the UK government and ICANN's proposed release of new generic TLDs in 2026, we see continued good growth opportunities. Online marketing revenues grew by 15% to $475m for 9M23. Q3 revenues were up 10% to $170m but gross profit down a touch year-on-year at $33m (vs $34m), reflecting the fact that Q322 was a particularly strong trading period across Search, Comparison and Performance and the weak advertising market backdrop. Net debt increased from $68.2m at H1 to $81.7m, reflecting the company's purchase of $16.3m worth of shares, working capital outflows and 95% operating cash flow to EBITDA conversion. Management expects this to normalise closer to 100% in Q4.

Valuation: Resilience, growth prospects not priced in

Given the weak advertising market and strong comparative period, these are creditable results. We make no material changes to our P&L estimates. Entering the peak Q4 period, we see good scope for upside this year and our FY24 forecast, which calls for 9% revenue growth, look prudent. Our year end net debt estimate increases from US$59m (which was below consensus) to US$80.9m, reflecting the accelerated share buyback plus higher capex, acquisition costs and working capital outflows than modelled. We see this as a one-off adjustment and expect the business model to continue to generate healthy cash flows. In our view, the company's value P/E rating of 7.1x FY23 dropping to 6.1x in FY24 is in stark contrast the company's growth track record and prospects.

13 November 2023

Price	**127p**
Market cap	**£342m**
	US$1.22/£
Net debt at 30 September 2023	$81.7m
Shares in issue	269.3m
Free float	45.6%
Code	TIG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	1.3	(5.3)	(5.6)
Rel (local)	4.5	(1.6)	(4.2)
52-week high/low		159p	109p

Business description

Team Internet Group is a global internet company that derives recurring revenue from privacy-safe, AI-based customer journeys that help online consumers make informed choices, as well as from the distribution of domain names.

Next events

Edison roadshow	22 November
Deutsche Eigenkapitalforum	27–29 November

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Edison profile page

Team Internet Group is a research client of Edison Investment Research Limited

Divisional review

Online Presence continues its return to form

Revenues in Online Presence grew 20% y-o-y to $114.1m for 9M23. Organic growth for the trailing 12 months (TTM) was 17%, an acceleration from 15% at the interims and the company's highest organic growth rate since establishment. Q3 revenues grew 21% y-o-y to $45m.

This acceleration is being driven by a number of factors, including:

- demand for 'exotic' TLDs – the number of processed domain registration years increased by 11% y-o-y to 14.1m for TTM.
- Pricing optimisation, with a particular focus on aligning prices to the mid-point of the market. Average revenue per domain year increased by 8% from $10.03 to $10.81.
- The impact of strategic partnerships, such as the partnership with WHMCS (a leading web hosting automation provider), which was announced in February 2023. More recently the company has announced a partnership with Titan, a business email service provider, which should help drive value-added services sales. (The share of value-added service revenue was 11.2% over the TTM period.)

Looking to 2024, the company's progress with the UK government could provide additional scope for growth. Team Internet's Registry business has been selected as one of two suppliers of critical domain services to the UK government's Crown Commercial Service's Network Services 3 framework. Further out, ICANN's proposed release of new generic TLDs in 2026 will provide further growth opportunities.

The group has also recently hired a new divisional CEO for Online Presence, Simon McCalla, to strengthen its Online Presence operations. Mr McCalla brings with him experience from both domain related businesses (he was CTO at Nominet for six years to September 2019) as well as experience from CEO roles with Elexon and Sedex (both privately held platform businesses).

Online Marketing: Continued double-digit growth

The performance of Online Marketing is set upon a backdrop of a weak advertising market and an exceptionally strong comparative period in Q322, where all three key business units –Tonic, Parking Crew and Vergleich – performed strongly. This is also a quarter where much of the focus is on lining up campaigns for the peak trading period in Q4 with Black Friday and Christmas. Revenues for 9M23 grew by 15% while TTM organic revenue growth was 20%. Q3 revenues were up 10% to $170m but gross profit was down a touch year-on-year at $33m.

Volumes increased significantly, with the number of visitor sessions up 36% to 5.6bn for the 12 months to September, offset by a 7% decrease in RPM (revenue per 1,000 sessions), reflecting the weak spending environment. This may indicate the potential for a good uptick in growth as the spend environment improves.

The division also continues to strengthen and diversify its partner base. ZeroPark signed three strategic partnerships: with Sovrn, a publisher technology platform, where ZeroPark has become a tier one partner, with booking.com and with Klarna. Voluum (Team Internet's ad tracker) has launched an integration with Shopify, allowing customers to directly feed conversion data from their Shopify stores into Voluum, bolstering their ad, product and page performance.

Estimate changes

Our P&L estimates are essentially unchanged with a marginal (1.4%) upgrade to FY23 adjusted EPS to reflect progress on the share buyback. Management has stated that it expects 2023 estimates to be 'at least' in line with consensus estimates and robust trading in Q4 could drive upside. For FY24, we believe that our 9% growth estimate is prudent, given the company's broadening span of strategic partners.

We have increased our year end net debt figure from US$59m to US$80.9m, reflecting the accelerated share buyback plus higher capex, acquisition costs and working capital outflows than modelled. We see this as a one-off adjustment and expect the business model to continue to generate healthy cash flows.

Exhibit 1: Estimate changes

Year end 31 December, US$'000	Old	New	Change	Y-o-y	Old	New	Change	Y-o-y
	2023e	2023e		growth	2024e	2024e		growth
Gross revenue	833,705	833,705	-	14%	909,572	909,572	-	9%
Net revenue	190,585	190,585	-	7%	208,116	208,116	-	9%
Adj. EBITDA	94,416	94,416	-	10%	103,017	103,017	-	9%
Profit Before Tax (norm)	80,720	80,087	(0.8)%	25%	89,302	89,298	(0.0)%	12%
Profit Before Tax (reported)	38,623	34,090	(11.7)%	130%	47,205	47,201	(0.0)%	38%
Net income (normalised)	58,118	57,663	(0.8)%	0%	64,297	64,295	(0.0)%	12%
Basic average number of shares outstanding (m)	273	267			257	257		
EPS - basic normalised (c)	21.29	21.58	(0.8)%	(2)%	25.00	25.00	(0.0)%	18%
EPS - diluted normalised (c)	21.09	21.37	(0.8)%	(2)%	24.75	24.75	(0.0)%	18%
Revenue growth (%)	14.5	14.5			9.1	9.1		
Gross Margin (%)	22.9	22.9			22.9	22.9		
Adjusted EBITDA margin (%)	11.3	11.3			11.3	11.3		
Adjusted EBITDA/net revenue (%)	49.5	49.5			49.5	49.5		
Change in Working capital	4,299	(7,054)			2,222	863		
Capex	(5,667)	(10,300)			(5,819)	(7,819)		
Acquisitions	(18,600)	(23,500)			(10,000)	(10,000)		
Share repurchase/issue	(46,273)	(46,273)			-	-		
Closing net debt/(cash)	58,968	80,867			8,914	35,110		

Source: Edison Investment Research

Exhibit 2: Financial summary

$'k	2020	2021	2022	2023e	2024e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	240,012	410,540	728,237	833,705	909,572
Cost of Sales	(164,894)	(292,041)	(550,541)	(643,120)	(701,456)
Gross Profit	75,118	118,499	177,696	190,585	208,116
EBITDA	29,394	46,251	86,024	94,416	103,017
Normalised operating profit	27,310	42,737	83,045	90,206	99,115
Amortisation of acquired intangibles	(13,747)	(18,291)	(36,399)	(36,399)	(36,399)
Exceptionals	(10,529)	(7,087)	(7,395)	(3,900)	0
Share-based payments	(5,113)	(5,006)	(5,698)	(5,698)	(5,698)
Reported operating profit	(2,079)	12,353	33,553	44,209	57,018
Net Interest	(9,834)	(10,798)	(18,736)	(10,120)	(9,817)
Joint ventures & associates (post tax)	79	0	0	0	0
Exceptionals	0	0	0	0	0
Profit Before Tax (norm)	17,555	31,939	64,309	80,087	89,298
Profit Before Tax (reported)	(11,834)	1,555	14,817	34,090	47,201
Reported tax	975	(5,097)	(16,895)	(24,827)	(27,682)
Profit After Tax (norm)	14,044	25,551	57,414	57,663	64,295
Profit After Tax (reported)	(10,859)	(3,542)	(2,078)	9,263	19,519
Minority interests	0	0	0	0	0
Net income (normalised)	14,044	25,551	57,414	57,663	64,295
Net income (reported)	(10,859)	(3,542)	(2,078)	9,263	19,519
Basic average number of shares outstanding (m)	197	227	266	267	257
EPS - basic normalised (c)	7.14	11.24	21.61	21.58	25.00
EPS - diluted normalised (c)	6.86	10.91	21.41	20.37	24.75
EPS - basic reported (c)	(5.52)	(1.56)	(0.78)	3.47	7.59
Dividend (c)	0.00	0.00	0.01	0.01	0.01
Revenue growth (%)	119.8	71.0	77.4	14.5	9.1
Gross Margin (%)	31.3	28.9	24.4	22.9	22.9
EBITDA Margin (%)	12.2	11.3	11.8	11.3	11.3
EBITDA/Net Revenue (%)	39.1	39.0	48.4	49.5	49.5
Normalised Operating Margin	11.4	10.4	11.4	10.8	10.9
BALANCE SHEET					
Fixed Assets	270,578	271,830	365,062	355,269	334,870
Intangible Assets	255,716	254,169	347,938	338,145	317,746
Tangible Assets	8,677	8,601	7,358	7,358	7,358
Investments & other	6,185	9,060	9,766	9,766	9,766
Current Assets	77,606	128,391	193,650	182,753	230,412
Stocks	1,011	895	646	500	2,114
Debtors	47,941	71,363	98,231	111,922	112,139
Cash & cash equivalents	28,654	56,133	94,773	70,331	116,159
Other	0	0	0	0	0
Current Liabilities	96,421	137,129	197,712	204,073	206,767
Creditors	89,256	117,016	190,348	196,839	199,533
Tax and social security	0	0	0	0	0
Short term borrowings	5,819	18,276	5,456	5,326	5,326
Lease liabilities	1,346	1,837	1,908	1,908	1,908
Long Term Liabilities	137,867	149,110	193,667	206,562	209,241
Long term borrowings	107,820	119,251	145,872	145,872	145,872
Other long term liabilities	30,047	29,859	47,795	60,690	63,369
Net Assets	113,896	113,982	167,333	127,386	149,273
Minority interests	0	0	0	0	0
Shareholders' equity	113,896	113,982	167,333	127,386	149,273
CASH FLOW					
Op Cash Flow before WC and tax	3,997	23,360	54,195	74,698	87,503
Working capital	4,129	4,091	7,245	(7,054)	863
Exceptional & other	14,526	15,804	24,434	15,818	15,515
Tax	(1,957)	(2,230)	(8,399)	(11,931)	(25,004)
Net operating cash flow	20,695	41,025	77,475	71,530	78,877
Capex	(4,259)	(4,810)	(6,543)	(10,300)	(7,819)
Acquisitions/disposals	(37,065)	(18,344)	(81,396)	(23,500)	(10,000)
Interest paid	(9,512)	(8,695)	(7,766)	(10,120)	(9,817)
Equity financing	34,667	0	58,187	(46,273)	0
Change in borrowing	1,563	24,721	34,691	0	0
Dividends	0	0	0	(3,538)	(3,401)
Other	(4,734)	(3,700)	(30,730)	(2,241)	(2,083)
Net Cash Flow	1,355	30,197	43,918	(24,442)	45,828
Opening net debt/(cash)	74,998	84,985	81,394	56,555	80,867
FX	1,117	(2,718)	(5,278)	0	0
Other non-cash movements	(12,459)	(23,888)	(13,801)	130	0
Closing net debt/(cash)	84,985	81,394	56,555	80,867	35,110

Source: Company data, Edison Investment Research

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